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FISCAL IMPACT REPORT

ORIGINAL DATE 1/26/07
 LAST UPDATED 3/5/07 HB 524/aHHGAC/aHTRC

SPONSOR Gonzales

SHORT TITLE Dept. of Health Hospitals Gross Receipts SB _____

ANALYST Schardin

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY07	FY08	FY09		
	(\$5,034.9)	(\$11,120.8)	Recurring	General Fund

(Parenthesis () Indicate Revenue Decreases)

Duplicates SB 326
 Relates to HB 23 and SB 161

SOURCES OF INFORMATION

LFC Files

Responses Received From
 Department of Health (DOH)
 Taxation and Revenue Department (TRD)

SUMMARY

Synopsis of HTRC Amendment

The House Taxation and Revenue Committee amendment to House Bill 524 makes a technical correction in the credit's phase-in schedule.

Synopsis of HHGAC Amendment

The House Health and Government Affairs Committee amendment to House Bill 524 clarifies language in Section 1 based on a suggestion made by TRD. The amendment does not affect the bill's fiscal impact.

Synopsis of Original Bill

House Bill 524 provides a gross receipts tax credit for hospitals licensed by the Department of Health (for-profit hospitals). The credit equals one third of the state gross receipts tax rate in FY08, two-thirds of state gross receipts tax in FY09, and the entire state gross receipts tax rate in

FY10 and beyond.

The bill will be applicable to tax reporting periods after July 1, 2007.

FISCAL IMPLICATIONS

All of the state's for-profit hospitals are currently located within municipal areas, where the state tax rate is 3.775 percent. Therefore, the credit will eliminate the state gross receipts tax paid by for-profit hospitals once it is fully phased in. The bill does not apply to local option gross receipts taxes, so for-profit hospitals will still pay a little over 1 percent local gross receipts tax.

A New Mexico Hospital Association survey on hospital gross receipts indicates that for-profit hospitals paid gross receipts tax of \$16.5 million in FY05 and \$21.4 million in FY06, of which 60 percent went to the state and 40 percent went to local governments. Assuming that the impacted tax base will grow by 10 percent each year, the credit will reduce general fund revenue by about \$5,034.9 thousand in FY08, \$11,120.8 thousand in FY09, and \$18,252.7 thousand once it is fully phased-in in FY10.

SIGNIFICANT ISSUES

Under current law, for-profit hospitals qualify for a 50 gross receipts tax deduction (Section 7-9-73.1 NMSA 1978). The bill effectively reduces the gross receipts tax paid by for-profit hospitals from 50 percent of the normal state rate to nothing once it is fully phased-in in FY10.

About half of New Mexico's hospitals are for-profit. For-profit hospitals compete with non-profit hospitals in New Mexico and hospitals in neighboring states that do not pay gross receipts tax. The New Mexico Hospital Association reports that this bill will remove a competitive disadvantage against New Mexico's for-profit hospitals.

According to the NMHA, rural hospitals have no choice but to absorb the costs of uncompensated care for patients who cannot pay. In addition, it is difficult for for-profit hospitals to pass gross receipts tax on to consumers because Medicare will not reimburse for it.

DOH believes removing the gross receipts tax from for-profit hospitals will make them more profitable and could allow them to provide enhanced services in New Mexico.

The proportion of for-profit hospitals has increased over last few years because for-profit hospitals have more access to capital.

LFC notes that receipts of health practitioners have historically grown faster than receipts of other industries. Removing receipts from high-growth sectors from the gross receipts tax base makes it more difficult for tax revenue to keep pace with inflation.

ADMINISTRATIVE IMPLICATIONS

TRD reports they will experience moderate administration impacts due to this bill. TRD will need to revise forms, educate taxpayers, train personnel, modify audit processes, and manually process the credit.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

House Bill 524 duplicates Senate Bill 326.

House Bill 524 relates to House Bill 23 and Senate Bill 161. These two bills are the same as House Bill 524 except they phase in the new gross receipts tax deduction in two years instead of three.

TECHNICAL ISSUES

TRD notes in the original bill that the purpose of Section 1 of the bill is unclear. The House Health and Government Affairs Committee amendment addressed that concern.

SS/mt